INDUSTRY[1]

The industrial sector recorded a growth of 10 per cent in current terms during the year under review. In real terms, industrial output is estimated to have increased by 2 per cent. It is to be noted that there has been a slowing down of the rate of industrial production in 1983. Although the momentum of growth has slowed down in recent years, this sector continued to play a dynamic role in the export-led development strategy. Under a variety of incentives, this sector continued to attract investments promising favourable effects on the country's economic growth and development in the years to come. The sector's contribution to the export earnings has increased from 14 per cent in 1978 to 35 per cent in 1983 implying a change in the structural character of the economy. This however, has to be interpreted after making allowances for growth in exports of petroleum products and garments both of which have relatively low domestic value added components.

The deceleration of the growth in 1983 largely reflected a decline in the output of public sector corporations. The petroleum refinery which has a heavy weightage in industrial production in terms of gross value was closed down for eight weeks in early 1983 causing a 21 per cent drop in its output. The chronic problem of underutilization of public sector industries worsened in 1983 with serious effects on industrial production. This was partly due to problems beyond their control such as power cuts and reduced hours of work in the wake of the July disturbances. Private sector growth was appreciable : this more than offset the decline in production of public sector industries.

Problems in the industrial sphere were further compounded by the situation that arose in the country in July and August 1983 as a result of ethnic disturbances. According to the Task Force on Damage to Industries and Commercial Establishments appointed by Government, 122 industrial establishments were reported damaged and 13,366 employees rendered jobless. While eighteen product groups were identified as suffering damage, the damage sustained by the textiles and wearing apparel sector was relatively large ; 43 industrial establishments in the textile category were reported damaged. Another 20 establishments in the food, beverages and tobacco, 21 establishments in the chemical and plastic products and 16 establishments in the fabricated metal products categories were damaged. Of the damaged industrial establishments, 32 had export orders amounting to Rs. 800 million in the following 12 months period. The total replacement cost of the industries was estimated at Rs. 1,750 million. The estimation of the impact of disturbances on the overall industrial production was complicated by the fact that existance of unutilized capacity in other firms of the same industry (that were not affected by the disturbances) facilitated making good the production loss in damaged units. In fact, textile and

1. As in the past, data relating to the performance of the industrial sector for 1983 are based on the returns to a questionnaire addressed by the Central Bank to all known and recorded manufacturing industries - large, medium and small - in the public and private sectors. (However, this does not include the export processing activities of the plantation sector, which are classified as manufacturing activity in the National Accounts). Generally, replies are received from about a third of addressees and these represent almost all of the major industries. In areas where data were not available, estimates based on the information available with various government agencies and institutions have been incorporated.

garment manufacture which was the most affected sector recorded the highest growth in production during the year under review. According to the survey of the Central Bank, 10 per cent of the damaged establishments had recommenced production by the end of 1983 while 16 per cent reported that rehabilitation was in progress.

The operation of several public sector projects was suspended during the year as they continued to incur heavy losses. The Nylon 6 Project of the Petroleum Corporation involving capital investment of Rs. 750 million, the stage II of the Steel Corporation involving capital investment of Rs. 207 million and the Urea Project of the State Fertilizer Manufacturing Corporation involving capital investment of Rs. 2,819 million were the giant projects which were included in this group. The operation of these enterprises has become unprofitable because of the changed circumstances both in Sri Lanka and abroad. In view of the heavy capital involvement as well as the large number employed, the permanent closure of these factories will be a difficult political decision for Government. Nevertheless, there is no justification for continuing to subsidise these ventures if they do not show any prospects of economic and commercial viability in the near future.

The reforms that took place in 1977 revised Sri Lanka's import duty structure with a view to relying on tariffs as the principal instrument of protection of local industry from competing imports. However, since the new tariff system was not completely reviewed, it gave rise to selective discrimination with high protection for some activities and low protection for others. Several changes were introduced to the tariff structure during 1979-1983 but they did not indicate any movement towards a tariff structure which was fully consistent with the objectives of economic policy announced in 1977. Some of the tariff changes were protective responses to appeals from manufacturers while some others were motivated by revenue considerations. In 1983 import duties were raised ranging from 2.5 to 10 percentage points for revenue reasons. This type of across the board revision which does not take account of effective levels of protection will only help to perpetuate the discriminatory tariff structure. The task of the Presidential Tariff Commission is to formulate a rational tariff structure taking into account effective levels of protection and Government's social and economic priorities including the promotion of employment. The importance for Sri Lanka in formulating a rational tariff structure cannot be overemphasised as the objective of Government policy is to build up an efficient manufacturing sector which can eventually effectively compete in international markets.

The Foreign Investment Advisory Committee (FIAC) has approved 56 industrial projects in 1983 with an investment potential of Rs. 1,030 million and an estimated employment level of 8,914. As at the end of June 1983, 114 projects approved by the FIAC were in operation providing employment for 18,974 persons. Foreign and local investment in these projects amounted to Rs. 462 million and Rs. 1,021 million respectively. Of the total number of projects in operation, 43 projects were in the textile and readymade garments sector which employed 13,757 persons. There were 29 projects in the chemical and chemical products, plastics and rubber-based industries providing employment for 1,773 persons.

The Local Investment Advisory Committees (LIACs) in the Ministry of Industries and Scientific Affairs, Textile Industries and Fisheries approved 346 industrial projects during the year. The potential investment of these projects was Rs. 415 million and they are expected to provide employment to approximately 9,894 persons.

The Greater Colombo Economic Commission (GCEC) approved 15 projects during 1983. Accordingly, the total number of approved projects increased to 185 by the end of the year. Of these, 99 firms have signed agreements with the GCEC to set up various industries. Among them, 66 projects were in commercial production and have provided employment for 26,053 persons.

In the sphere of industrial exports there was a decline in the exports of petroleum products mainly due to reduced availability of exportable surplus consequent on the closure of the refinery in February/March. The diversion of naphtha into the domestic manufacture of fertilizer (urea) was also a contributory factor for this decline. Other industrial exports increased by 23 per cent from Rs. 4,991 million in 1982 to Rs. 6,139 million in 1983. In SDR terms, industrial exports including petroleum products declined by 3 per cent, although in rupee terms there was an increase of 7 per cent from Rs. 8,271 million in 1982 to Rs. 8,821 million in 1983.

Production

Overall industrial output, in real terms, is estimated to have increased by 2 per cent in 1983, as compared with the appreciable growth rate of 9 per cent in 1982. This was mainly due to a 26 per cent growth in private sector industry and a negative growth of 15 per cent in respect of the public sector. The negative rate of growth in the public sector industrial output in 1983 was mainly due to a 21 per cent decline in output of petroleum and chemical products. Total industrial production in the public and private sectors excluding the output of the Petroleum Corporation indicated an increase of 7 per cent.

Among the sectors that recorded increased production in real terms were: textile, wearing apparel and leather products (34 per cent) which was largely due to an improvement in the export oriented garment industry, specially in the Investment Promotion Zone (IPZ) ; food, beverages and tobacco products (11 per cent) ; fabricated metal products (9 per cent) ; wood and wood products (8 per cent) ; basic metal products (6 per cent) ; paper and paper products (2 per cent) ; products not elsewhere specified (11 per cent). The output of petroleum and chemical products declined by 18 per cent and non-metallic mineral products by 3 per cent. The private sector recorded higher levels of output in respect of all product groups except paper products.

In current terms, the rate of growth of industrial production decelerated from 13 percent in 1982 to 10 per cent in 1983. The total value of industrial production excluding the chemical and petroleum products sector, is estimated to have increased by 29 per cent in 1983, as compared with a growth rate of 16 per cent in 1982. The value of wood and wood products and textile and wearing apparel sectors recorded sharp increases of 45 per cent and 44 per cent respectively in 1983, over 1982. The value of food, beverages and tobacco products increased by 33 per cent, fabricated metal products by 25 per cent, paper and paper products by 24 per cent, basic metal products by 15 per cent and non-metallic mineral products by 7 per cent. The output value of petroleum and chemical products decreased by 9 per cent.

TABLE 1.19

Value of Industrial Production 1979 – 1983

Rs. Million

Category	1979	1980	1981	1982	1983 *(a)*
1. Food, beverages and tobacco	2,856	3,899	4,496	5,246	6,998
2. Textile, wearing apparel and leather products	1,128	1,923	3,040	3,863	5,136
3. Wood and wood products (including furniture)	166	289	315	361	522
4. Paper and paper products	445	476	626	725	901
5. Chemicals, petroleum, coal, rubber and plastic products	4,508	9,416	12,015	13,099	11,888
6. Non-metallic mineral products (except petroleum and coal)	710	1,156	1,250	1,370	1,468
7. Basic metal products	349	478	428	262	302
8. Fabricated metal products, machinery and transport equipment	569	620	782	904	1,129
9. Manufactured products not elsewhere specified (n.e.s)	50	54	58	74	90
Total	10,781	18,311	23,010	25,904	28,434

Source : Central Bank of Ceylon.

(*a*) Provisional

Power and Fuel

In 1983, the use of electricity in industry increased by 2 per cent while the domestic sales of industrial fuel indicated an increase of 37 per cent over the previous year. However, the use of electricity in industry as indicated here does not take into account the power generated by the industries' own generators during the period of the power cut. The significant increase in the sale of industrial fuel was mostly due to the increased consumption of heavy diesel by the Ceylon Electricity Board for the generation of thermal power to supplement the hydro-power generation.

In the year under review, the use of electricity by small industries increased by 12 per cent while that of large scale industries recorded an increase of 2 per cent when compared with the previous year. A slightly increased level of electricity usage was recorded in the medium scale industries in 1983.

TABLE 1.20

Power and Fuel Use in Industry 1981—1983

Item	1981	1982	1983 (a)
1. Electricity (b) (Gwh) ..	676·7	739·1	752·0
1·1 Small Industry ..	21·3	26·0	29·0
1·2 Medium Industry ..	308·9	338·7	339·7
1·3 Large Industry ..	346·5	374·3	383·3
2. Domestic sales of Industrial Fuel ('000 metric tons) ..	350·9	412·2	565·5
2·1 Heavy diesel (c) ..	106·6	169·3	285·5
2·2 Furnace oil ..	244·3	242·9	280·0

Sources : Ceylon Electricity Board,
Ceylon Petroleum Corporation.

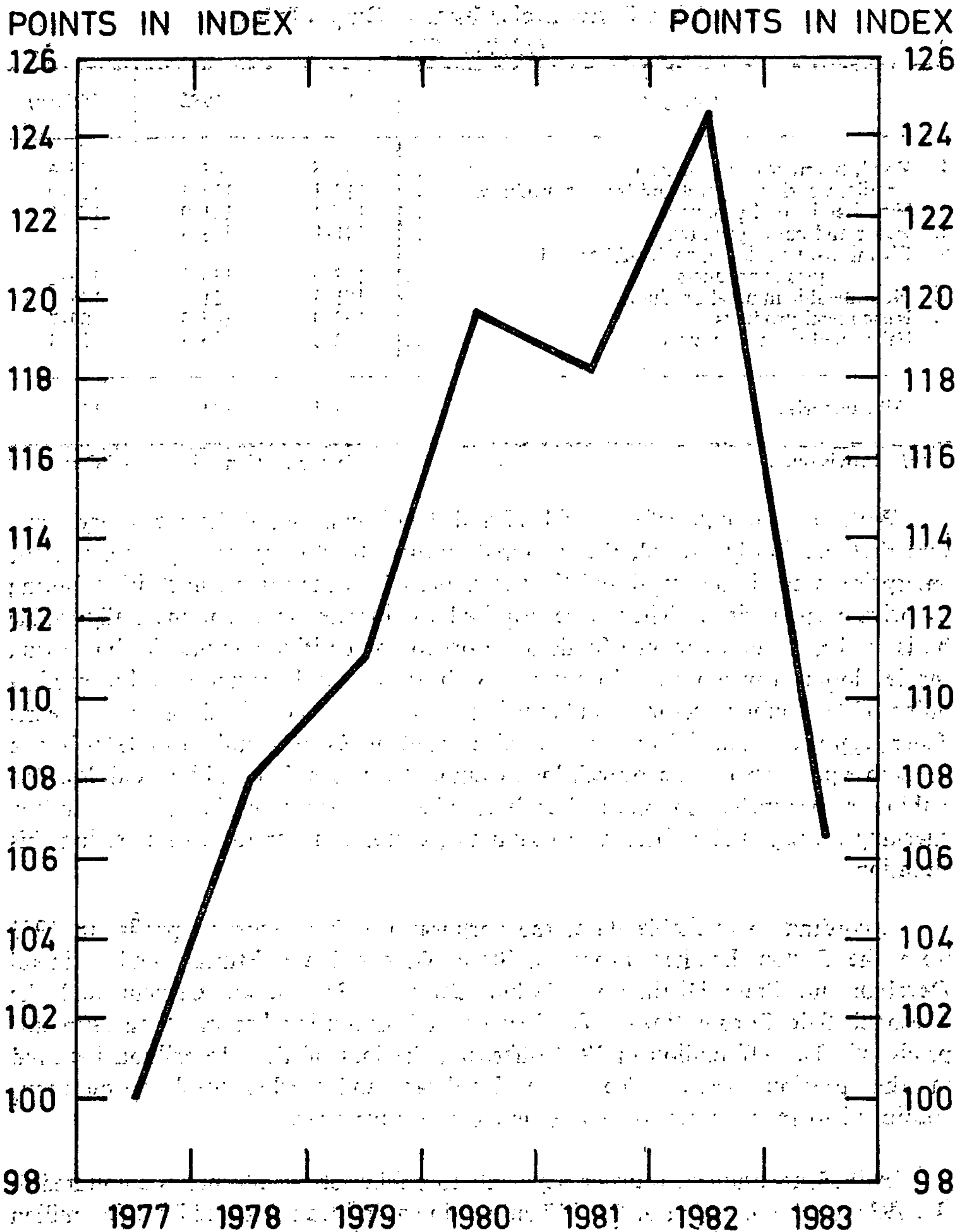
(a) Provisional
(b) Includes manufacturing and export processing industries. Small industry is defined as those with having rated capacity below 50 kva, medium industry as 50-500 kva and large industry as above 500 kva.
(c) Includes sales to the Ceylon Electricity Board.

Public Sector Industry

The overall output of public sector industrial enterprises, in real terms, declined by 15 per cent in 1983 as compared with a 5 per cent increase in the previous year. The major contributory factor for this overall decline in 1983 was the substantial decrease of 21 per cent in the output of the Ceylon Petroleum Corporation (which accounts for approximately half of the total public sector industrial production) the refinery of which was closed for maintenance work for nearly eight weeks in 1983. The total output of public sector industrial enterprises excluding the Petroleum Corporation indicated a decrease of 7 per cent in the year under review. Among them, the Fertilizer Manufacturing Corporation recorded a decrease of 41 per cent mainly due to the shut-down of its factory for repairs and on account of production problems. The decline in the production level of the Sri Lanka Cement Corporation (by 9 per cent) was mostly the result of the closure of its kilns owing to the short supply of clinker. The State Distilleries Corporation and the National Milk Board recorded decreases of 32 per cent and 16 per cent respectively. This was mainly due to the shortage of inputs as a result of the unprecedented drought conditions that prevailed during the year. The production of the National Salt Corporation and the State Mining and Mineral Development Corporation declined by 30 per cent each in 1983. Among the corporations that recorded improved levels of output were the State Timber (21 per cent), Ceylon Oils and Fats (16 per cent) and Ceylon Mineral Sands (10 per cent).

With respect to sales, the Ceylon Leather Products, State Mining and Mineral Development, Ceylon Ceramics and the Ceylon Oils and Fats Corporations fared well in 1983. On the other hand, the sales of the State Hardware and Ceylon Steel Corporations continued to decline in the year under review. Despite high levels of protection given, some of the public industries

INDEX OF INDUSTRIAL PRODUCTION OF THE PUBLIC SECTOR*



Central Bank of Ceylon

* Represents the out put of 26 major enterprises

have shown their clear inability to meet the domestic demand even where they are perceived to enjoy a comparative advantage in the manufacture of products such as tyre, caustic soda and sugar.

TABLE 1.21

Public Sector Major Industry Output Index
(1977 = 100)

Category	1981	1982	1983*(a)*
1. Food, beverages and tobacco ..	80·6	83·6	73·6
2. Textile, wearing apparel and leather products ..	118·3	135·7	127·0
3. Wood and wood products ..	136·4	151·0	163·1
4. Paper and paper products ..	141·1	133·3	135·7
5. Chemicals, petroleum, coal, rubber and plastic products ..	118·9	133·1	105·2
6. Non-metallic mineral products ..	161·8	131·5	125·1
7. Basic metal products ..	169·0	106·3	109·7
8. Fabricated metal products ..	82·2	96·3	76·8
All categories ..	118·4	124·6	106·7

(a) Provisional. *Source :* Central Bank of Ceylon.

With the economic reforms of 1977 and the dismantling of the regulatory structure that previously existed, the favoured status hitherto enjoyed by public sector enterprises was discontinued and they were placed on the same competitive footing as private enterprises. They were required to operate on a commercially viable basis and generate their own funds or resort to competitive commercial borrowing for development purposes. However, it is observed that the general level of profitability of the public sector manufacturing enterprises has declined in recent years. Their aggregate financial results showed a profit of Rs. 679 million in 1980 but in the subsequent two years overall losses amounted to Rs. 241 million and Rs. 555 million respectively. Emphasis has been placed recently on financial viability, checking wastage and enforcing cost saving measures as a step towards arresting this situation.

According to available data, the corporations that recorded profits in 1983 were the Ceylon Leather Products, State Timber, State Mining and Mineral Development, State Distilleries, Ceylon Ceramics, Sri Lanka Cement and the National Salt Corporations. The Petroleum Corporation has made an estimated profit of Rs. 907 million in 1983 offsetting the loss of Rs. 615 million incurred in the previous year. The State Hardware and Ceylon Steel corporations continued to incur losses for the second consecutive year.

In 1983, government transfer payments to public sector enterprises amounted to Rs. 793 million consisting of Rs. 227 million in capital transfers and Rs. 565 million in the form of current transfer payments. The Sri Lanka Sugar, National Textile, State Fertilizer Manufacturing, Ceylon Oils and Fats and Ceylon Steel Corporations and the National Milk Board were the major receipients of these transfers.

TABLE 1.22

Transfers of Government Funds to Industrial Enterprises 1981 – 1983

(Rs. Million)

Corporation/Enterprise	Capital			Current			Total		
	1981	1982	1983*	1981	1982	1983*	1981	1982	1983*
National Milk Board ..	50·5	10·7	9·0	44·3	45·9	21·3	94·8	56·6	30·3
Ceylon Oil & Fats ..	34·7	10·9	25·3	—	—	—	34·7	10·9	25·3
Sri Lanka Sugar ..	46·8	75·4	122·5	—	—	—	46·8	75·4	122·5
National Textile ..	—	—	31·5	—	—	32·7	—	—	64·2
National Paper ..	4·8	—	—	21·2	10·0	—	26·0	10·0	—
State Rubber Manufacturing ..	—	—	—	—	0·7	—	—	0·7	—
Sri Lanka Ayurvedic Drugs ..	7·5	—	—	—	—	—	7·5	—	—
State Fertilizer Manufacturing	88·5	300·0	—	269·0	543·0	494·7	357·5	843·0	494·7
Ceylon Steel ..	7·9	—	39·1	—	—	—	7·9	—	39·1
State Hardware ..	—	—	—	—	—	0·4	—	—	0·4
National Packaging Materials ..	—	—	—	6·0	2·5	7·7	6·0	2·5	7·7
Ceylon Oxygen Ltd. ..	10·0	—	—	—	2·6	8·6	10·0	2·6	8·6
Total ..	250·7	397·0	227·4	340·5	604·7	565·4	591·2	1001·7	792·8

* Provisional

Source: General Treasury.

Investment Promotion Zone

The Greater Colombo Economic Commission (GCEC) approved 13 projects in 1983 bringing the total number of projects approved to 185 by the end of 1983. Of these, 99 enterprises have already signed agreements with the GCEC to set up industries. A total of 56 enterprises were in commercial production within the Katunayake Investment Promotion Zone (KIPZ) while 10 enterprises were in production outside KIPZ. Of the projects in commercial production, 33 were engaged in the production of readymade garments. The total number employed in GCEC enterprises amounted to 26,053 in December, 1983 as compared with 22,606 in December, 1982.

Although a large number of projects continued to be in the garments sector, there appears to be a diversification to other areas such as rubber products, tea packeting, electrical appliances and lapidary and jewellery. Of the thirteen projects approved in 1983, two were in chemicals, one in textiles, eight in metallic equipment group and one each in non-metallic mineral products and fabricated metal products groups. However, there was some decline in the rate of increase in total approvals compared with the number of approvals in the past few years.

Another noteworthy feature under IPZ was the commencement of construction activities of the Biyagama Investment Promotion Zone which is the second Investment Promotion Zone in Sri Lanka. This covers an area of 450 acres and the initial construction activities for 20 industrial units had been initiated in November, 1983.

TABLE 1.23

Investment Promotion Zone—Employment and Export Earnings

Industry	1982(a) Employment (End Dec.) No.	1982(a) Gross Export Earnings (F.O.B.) Rs. Mn.	1983(b) Employment (End Dec.) No.	1983(b) Gross Export Earnings (F.O.B.) Rs. Mn.
1. Garments and footwear ..	18,853	1,306·8	22,389	1,918·9
2. Rubber and plastic products ..	1,094	89·9	760	107·6
3. Electronic & electrical products ..	304	25·2	431	54·9
4. Steel & fabricated metal products and machinary & transport equipment ..	129	8·5	175	37·7
5. Jewellery & lapidary ..	587	15·0	684	18·0
6. Beverages & tobacco ..	13	10·4	30	41·7
7. Wood products ..	113	2·7	64	1·6
8. Non-metallic products ..	72	4·7	85	5·6
9. Coir products ..	113	4·2	29	9·4
10. Others ..	1,328	185·7	1,406	224·1
Total ..	22,606	1,653·1	26,053	2,419·5

(*a*) revised
(*b*) provisional

Source : Greater Colombo Economic Commission.

Export earnings of the IPZ enterprises stood at Rs. 2,419 million (SDR 96 million) in 1983 representing an increase of 46 per cent over the previous year. As in the previous years, garments and footwear sector accounted for the highest amount of export earnings (79 per cent) in 1983, representing an increase of 47 per cent over the previous year. In this sector export earnings per employee stood at Rs. 85,707 as compared with Rs. 69,315 in the previous year. Rubber and plastic product category was the second highest group amounting to Rs. 107 million or 4 per cent in export earnings. Another product category which recorded an appreciable growth was beverages and tobacco from Rs. 10 million to Rs. 41 million. Among other items exported were jewellery, electrical and electronic products, footwear and steel products.

ECONOMIC AND SOCIAL OVERHEADS

Energy

The acceleration of economic activity and the concomitant demand for expanded economic infrastructure facilities led to an unprecedented growth in energy consumption in recent years. The imbalance between demand and supply and the resultant pressures on supplies continued through 1983. On the international front, in 1983, the world oil prices which brought about tremendous pressure on the balance of payments in the past ten years fell for the first time since 1973. Indeed, in 1983 oil prices fell not merely in real terms, but actually in nominal terms as well. However, Sri Lanka was unable to enjoy the full benefit of the favourable international environment as unprecedented drought conditions drastically restricted hydro electricity generation. This made necessary the increased use of imported oil (heavy